

# Some Modest Proposals for Tax Simplification

*Tim Whitehead*

**I**f I had the ear of the finance minister for five minutes, what would I suggest as he prepares this year's budget?

I wouldn't spend the time talking about big changes in direction, nor would I get into topics on which we'd never agree. Instead, I'd stick to a few simple ideas.

1. Budget assumptions: The Paul Martin practice has been to use a small-c conservative approach to budgeting — use economic assumptions that are more pessimistic than the private sector's and, on top of that, build in a revenue contingency of \$3 billion. This "belt and suspenders" approach was necessary to reassert fiscal prudence in the face of Ottawa's repeated failure to meet previous deficit targets, but is it wise in a post-deficit world?

Systemic pessimism leads to sub-optimal budgeting: taxes are kept higher and/or spending kept lower than targets require. Instead, the federal government should base its budget projections on its best economic guess — provided that it's no more optimistic than the private sector's — and set its contingency reserve at 1% of debt. That would imply a debt repayment target of about \$6 billion in the fiscal year ending March 31, 2000.

2. Simplify taxes: The complexities of the Canadian tax system place an enormous burden on the economy. The costs of compliance and enforcement, added to the distortions of tax-motivated decisions made by the private sector, defy exaggeration. The tax code of this country has grown like the bloated computer code of successive Windows operating systems,

with similar efficiency losses. The time has come to simplify the tax system.

My modest suggestion is the creation of a tax simplification task force. It would be given a six-month mandate to suggest ways to eliminate 10% of the country's tax code, subject to the twin constraints of revenue neutrality and minimal disruption. The federal government would then have six months to implement or reject the recommendations. There would be some losers — principally tax accountants — but if successful, the task force could become an annual institution and, inside five years, we might approach a reasonable tax system.

3. Last-minute charitable contributions: Before the task force started its work, however, I'd like to suggest one new tax fillip. At the end of the personal income tax return, the federal government should provide the tax filer with an opportunity to make an additional charitable contribution for the taxation year in question, subject to a maximum of, say, \$100.

It would work this way: I've just finished my 1998 tax return and see that I am to receive a \$400 income-tax refund. I then choose to give \$100 to the Canadian Cancer Society. Revenue Canada would make the revisions to my tax return, increasing my charitable contribution tax credit, reducing federal and provincial income taxes. The net results would be a smaller tax refund, a small cost to government and \$100 more for the fight against cancer.

Undoubtedly, there would be issues surrounding which charities are included in this check-off system and the participation of the Quebec government with its separate personal-income-tax system. Still, it would be a way to boost charitable giving in Canada at a time when the needs are so great.

4. Spending the surplus: Suggestions abound on how to distribute Ottawa's surplus. My preference would be to use some of it to implement the recommendations of the Technical Committee on Business Taxation.

The Mintz report suggested ways to reduce business tax rates by broadening the tax base and to make the tax system less distorting, subject to a revenue-neutrality constraint. The plan, taken in whole, would be good for the economy, but it would increase the tax burden for some sectors in the economy.

Rather than let the losing sectors block this much-needed package of reforms, Ottawa could use some of the surplus to ease the revenue constraint. In the long run, reform of business taxation would probably pay more dividends than any other tax cut.

These four suggestions would certainly be an earful for the finance minister. On the other hand, because I didn't mention labour sponsored venture capital funds or Canadian education savings grants or other such foolishness, I might just have managed to get him to listen to it all.

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